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Report Highlights:

Wine production is expected to expand again in 2009 mainly due to favorable weather conditions. But exports are expected to stay at similar level than last year in volume due to the economic crisis which will affect export demand. In the coming years, industry sources have indicated that as new areas come into production, wineries will have to invest in new processing and storage facilities to absorb the annual additional output.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
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Table of Contents

Executive Summary	3
Planted Area	3
Production	3
Table - Real Domestic Farm Gate Wine Prices.....	3
Production Factors	4
Table - Wine Production, Consumption and Exports.....	4
Consumption.....	5
Trade.....	5
Table - Wine Export Volumes (HL)	5
Table - Wine Export Values (Thous.US\$ FOB)	5
Table - Wine Export Prices (FOB current US\$ per HL)	6
Table - Wine Exports by Country of Destination	6
Policy	7
TABLE: CHILE – Production, Consumption, Trade and Stocks.....	8

Executive Summary

Chile's wine production expanded again in CY2008, as weather has been excellent in most growing areas and additional new planted areas are coming into production. Another small expansion is expected for CY2009 as still a large area is in the increasing stage of production.

Chile has an estimated 8,000 producers of wine grapes. Planted area has increased over 70 percent during the last 8 years. Industry sources believe that once the new areas come into production, wineries will have to invest in new processing and storage facilities to absorb the additional annual output.

Planted Area

As a result of good economic returns obtained for wine during the last few years, farmers continue to plant new vineyards to varieties in higher demand but at a lower rate of expansion. As a result the Ministry of Agriculture's new estimate of total planted area of vines for wine is now 119,000 hectares. Out of the total planted area, around 76 percent are red varieties. Also, close to 75 percent of all planted area is irrigated. As a result, Chile's total volume of exportable wine is expected to continue to expand in the coming years.

Production

Wine production in CY2008 increased due to excellent weather in most wine producing areas together with newly planted areas that come into production. In spite of large crops during the last few years that have increased stocks to record volumes, prices paid to producers for wine in CY2008 increased significantly. But due to the expected fall in export demand as a result of the economic crisis, prices for grapes and or wine (domestic Farm Gate prices) are expected to fall up to 30 percent for the coming harvest in CY2009 as indicated by an industry official.

For CY2009 another small expansion in the wine production is expected as weather has been good and still a large number of orchards are either in the increasing stage or coming into production.

Table - Real Domestic Farm Gate Wine Prices (CH\$ Per Liter) /1							
1981	1985	1990	1995	2000	2006	2007	2008
242	130	135	201	460	215	183	266
Exchange rate: US\$1.00 = CH\$649.32							
1/ Prices are in Dec 2008 Chilean pesos.							
Source: ODEPA (Ministry of Agriculture).							

Production Factors

Over 46 percent of wine storage containers at wineries are made of stainless steel in the Chilean wine industry, which shows a high technological development standard for the industry. Additionally, 39 percent of the wineries use oak barrels, French or American, for an average of 3 to 5 years. Over 70 percent of Chilean wine makers believe that they have sufficient storage capacity for their production, while only 12 percent believe they need to expand.

Table - Wine Production, Consumption and Exports					
				Exports	
	Area Planted (Th. Has)	Production (Mill. Ltr.)	Per Capita Consumption	Mill. Ltr.	Mill. US\$
1982	105	603	52	8	11
1990	65	398	25	43	52
1992	62	370	17	74	119
1994	53	411	13	111	143
1996	56	481	16	185	294
1998	75	547	17	251	540
2000	104	679	15	276	585
2002	109	574	15	356	610
2004	112	655	16	474	845
2006	115	845	15	520	965
2007	117	828	16	613	1,262
2008	118	869	16	591	1,384
2009 1/	119	890	16	580	1,358
1/ FAS Forecast					
Source: National Agricultural Society (SNA) and Central Bank.					

Consumption

Total domestic wine consumption in Chile is more or less stagnant. Statistics shows that average per capita consumption fell over 70 percent from a high of 52 liters per person in 1982 to a low of only 13 liters in 1994. Beer consumption has been substantially exceeding 27 liters per capita. However, beginning in 1994, per capita consumption of wine slowly began expanding again and presently is of 16 liters per person. Chile has the lowest per capita wine consumption for all major wine producing and exporting country. Chile's per capita wine consumption compares to 55 liters consumed in France and 40 liters in Argentina.

Trade

Chilean wine exports fell slightly in volume but increased in value during CY2008 when compared to the previous year. Higher prices obtained mainly for sparkling and bulk wine explain the increased returns for exports in CY2008. Industry sources indicate that Chile is the tenth largest wine producer and fifth largest exporter in the world. In spite of the severe economic crisis which is affecting the world, the wine industry in Chile expects exports in CY2009 to stay at similar level than in CY2008. A reported fall of the wine production in France for the second year in a row and a big effort in developing new markets, like China, are the main reasons for their optimism in keeping export volumes at the same level than last year. Improvements in quality and a good price/quality relationship should also help to keep exports levels.

Chile traditionally exports both bottled and bulk wine. An increasing number of wineries are making a big effort to increase premium-bottled wine exports; as a result bottled wine kept expanding in CY2008 and bulk wine exports fell. Currently, there are more than 70 Chilean wineries exporting. Over 60 percent of Chile's total yearly production is exported, supplying more than 100 countries.

Table - Wine Export Volumes (HL)			
Kind / Year	2006	2007	2008
Sparkling	15,565	19,405	27,279
Bottled	3,507,669	3,645,246	3,705,824
Bulk	1,681,360	3,052,497	2,180,703
TOTAL	5,204,594	6,127,154	5,913,806

The average price obtained for all exports rose almost 14 percent. Industry sources believe the increase in the average export price reflects an improvement in the quality of the wine being exported.

Table - Wine Export Values (Thous.US\$ FOB)			
Kind / Year	2006	2007	2008
Sparkling	4,594	5,754	9,885
Bottled	839,075	1,090,195	1,174,379
Bulk	124,357	165,850	199,730
TOTAL	968,026	1,261,799	1,383,994

Table - Wine Export Prices (FOB current US\$ per HL)			
Kind / Year	2006	2007	2008
Sparkling	295	297	362
Bottled	239	299	317
Bulk	74	54	92
Average	186	206	234

Chile's main export market for wine continues to be the EU followed by the US. China is the third largest export market in volume but not in value since it imports mainly bulk wine. The industry continues its focus on the Asian markets. However, less than 10 percent of total exports go to that market, according to "Wines of Chile", a public-private organization created to promote Chilean wine exports.

Table - Wine Exports by Country of Destination						
	Quantity (1000 Hectoliters)			Value (Thousand US dollars)		
	2006	2007	2008	2006	2007	2008
U.K.	1,018.1	1,016.8	967.1	163,303	230,584	223,046
U.S.	535.5	612.2	698.9	149,721	185,770	199,788
China	393.0	705.7	479.8	21,119	40,196	51,357
Germany	399.7	590.9	473.5	53,167	70,886	65,091
Canada	449.6	298.2	321.6	56,150	67,905	80,572
Denmark	256.8	286.1	300.7	42,429	55,624	69,829
Netherlands	177.4	224.7	253.1	42,106	54,233	67,492
Japan	127.7	186.8	226.0	30,585	42,376	54,861
Brazil	143.5	189.0	182.7	37,028	50,947	52,210
France	164.4	196.7	168.9	20,131	21,979	21,984
Russia	236.8	184.1	150.0	26,069	30,636	30,555
Others	1,302.1	1,636.0	1,691.4	326,218	184,034	667,161
TOTAL	5,204.6	6,127.2	5,913.7	968,026	1,035,170	1,383,946
Source: ODEPA (Ministry of Agriculture).						

Wine is mainly imported from Argentina in tetra pack cartons and/or bulk to supply the domestic demand for in-expensive wine. U.S. wine is also available, usually in premium outlets. However, demand is dampened by prices well above the local market average. The current tariff rate for all U.S. wine imports into Chile is 6 percent ad valorem. There is also a 19 percent value-added tax and a 15 percent liquor tax applied to all wines sold in Chile. The US-Chile Free Trade Agreement had no effect on Chilean wine export volumes to the US, as the duty for most wine is 6.3 cents per liter and will be phased out over a total of 12 years (2016). In the case of US wine exports to Chile, the 6% tariff will remain at base rate until 2010. Beginning January 2011 duties will be reduced by 3.3%. In January 2012, duties will be reduced by 21.7 %. In 2013, duties will be reduced by 40.0 %. In 2014, duties will be reduced by 58.3 %. In 2015, duties will be reduced by 76.7 %. U.S. wine can enter Chile duty free in 2016. In agreements signed with other trading partners, Chilean exports will have a zero tariff in 2011 in all Mercosur member countries, a zero tariff in 2009 with South Korea and has already free access in Canada, Mexico and the European Union. The present duty of 11.2 percent in China will be reduced to zero in 2015. The recent agreement signed with Japan calls for a 12 year phase out period from the present 15 percent duty.

Policy

Wine production and exports are regulated and certified by the Agriculture and Livestock Service (SAG) of the Ministry of Agriculture. All wine produced in Chile for both the domestic and export market is periodically sampled by SAG. SAG also issues the export certificates that include the wine's origin and quality.

The government provides no direct subsidies to support wine production or subsidize exports. Although Chile does have a successful market promotion campaign called "tastes of Chile" that includes wine. Promotions are managed by an organization called "Wines of Chile" which is co funded by both of the wine producers associations in Chile, Vinos de Chile and Chilevid. The Wines of Chile campaign has an annual budget that is less than 1 percent of the total value of Chile's bottled wine exports. The marketing funds are used for generic promotion. The Government contributes 15 percent of the total amount, through its export promotion agency called ProChile. Wines of Chile spend most of its allocated budget on promotional activities in Canada, England, Germany and the United States. Activities include the "Tastes of Chile" campaign that promotes fruits and wine. The images used build on the natural beauty of Chile and the quality of the products. Another promotional program is the activity called "Wine Show and Tasting". This activity takes place normally once a year. It consists of seminars and wine tasting. ProChile contributes with logistics and market information and the wineries pay the costs. With this strategy the wine industry is promoting wines in markets like Russia, Netherlands, Denmark, Sweden, Czech Republic, Brazil, Mexico, Venezuela, Taiwan and Hong Kong.

TABLE: **CHILE – Production, Consumption, Trade and Stocks**
(Thousand HL)

	CY2008	CY2009	CY2010
PRODUCTION	8,690	8,900	9,100
CONSUMPTION	2,680	2,700	2,760
EXPORTS	5,900	5,800	5,850
IMPORTS	42	55	55